

Message Text

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TAGS: EFIN, PFOR, EEC

SUBJECT: EC FINANCE MINISTERS COUNCIL, MAY 20: DISCUSSIONS
ON THE RETURN OF THE FRENCH FRANC TO THE SNAKE

REF: (A) PARIS 12548; (B) EC BRUSSELS 4311

1. BEGIN SUMMARY: THE EC FINANCE MINISTERS MET IN BRUSSELS ON MAY 20. THE MINISTERS' DISCUSSIONS FOCUSED ON THE RETURN OF THE FRENCH FRANC TO THE SNAKE. THE FRENCH HAVE PROPOSED A SERIES OF CHANGES IN THE OPERATIONS OF THE SNAKE, THE DETAILS OF WHICH WILL BE WORKED OUT BY THE EC CENTRAL BANKERS WHO ARE TO REPORT TO THE NEXT FINANCE COUNCIL MEETING IN LUXEMBOURG ON JUNE 16. THE FRENCH HAVE PROPOSED CHANGES IN THE RULES CONCERNING INTERVENTION IN SUPPORT OF WEAK CURRENCIES WITHIN THE SNAKE, MODIFICATIONS CONCERNING CURRENCY CLEARING ARRANGEMENTS WITHIN THE SNAKE AND LINKING THE CENTRAL RATE OF THE SNAKE TO THE DOLLAR EXCHANGE RATE. THIS CABLE REPORTS WHAT WE HAVE BEEN ABLE TO LEARN SO FAR OF THE MINISTERS' DISCUSSIONS. THE TEXT OF FRENCH FOREIGN MINISTER FOURCADE'S STATEMENT, AND THE OTHER
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SUBJECTS DISCUSSED BY THE MINISTERS WILL BE REPORTED SEPTELS.

END SUMMARY.

2. THE RETURN OF THE FRENCH FRANC TO THE SNAKE: THE EC FINANCE COUNCIL, A MORNING MEETING OF MEMBER COUNTRIES OF THE SNAKE, AND THE FINANCE MINISTERS' PRIVATE LUNCHEON WERE ALL DOMINATED BY DISCUSSIONS ON THE RETURN OF THE FRENCH FRANC TO THE SNAKE. FRENCH FINANCE MINISTER FOURCADE INTRODUCED THREE "SUGGESTIONS" WHICH HE SAID NEEDED TO BE DISCUSSED BEFORE THE FRANC REJOINED THE SNAKE. (FOURCADE SAID THESE ISSUES DID NOT CONSTITUTE "PRE-CONDITIONS" FOR THE RETURN OF THE FRANC, BUT OTHER MINISTERS, POINTING OUT THAT THE FRENCH PROPOSALS WOULD DRASTICALLY ALTER THE SNAKE, WERE LESS CERTAIN).

3. FOURCADE PROPOSED CHANGES IN THE RULES CONCERNING INTERVENTION AND SUPPORT OF THE WEAKER CURRENCIES WITHIN THE SNAKE. HE URGED THAT THE BURDEN OF SUCH INTERVENTION BE SHARED AMONG ALL MEMBERS OF THE SNAKE AND THAT THERE BY SYSTEMATIC INTERVENTIONS IN DOLLARS BEFORE CURRENCIES REACH THE MARGINS OF THE SNAKE. HE FURTHER URGED THAT THE SETTLEMENT PERIOD FOR VERY SHORT TERM CREDITS BE EXTENDED. FOURCADE ALSO PROPOSED ELIMINATING THE CURRENT SYSTEM THAT SHORT TERM DEBTS SHOULD BE REPAYED IN PROPORTION TO THE DEBTOR'S COMPOSITION OF FOREIGN EXCHANGE RESERVES. HE FURTHER SUGGESTED THAT SETTLEMENTS COULD BE ALSO MADE IN GOLD AT A MARKET-ORIENTED PRICE. HE ADDED THAT IN THE LONG-TERM ADDITIONAL MEASURES COULD BE TAKEN TO ESTABLISH A REFERENCE RATE FOR ALL EC CURRENCIES WHICH WOULD BE MORE FLEXIBLE THAN IMF PARITIES.

4. FINALLY, FOURCADE PROPOSED THAT SNAKE PARTICIPANTS COORDINATE THEIR POLICIES REGARDING THEIR RATES VIS-A-VIS THE DOLLAR. "TARGET" RATES FOR INTERVENTION AGAINST THE DOLLAR MIGHT BE DEVELOPED. IT WAS SUGGESTED THAT THIS SHOULD BE ACCOMPLISHED BY FREQUENT CONSULTATION WITH EC CENTRAL BANKERS AND WITH THE US. PERM DEL SOURCES INDICATE THAT FOURCADE DID NOT ENVISAGE THE MAINTENANCE OF FIXED INTERVENTION POINTS (THE SNAKE WITHIN A TUNNEL) BUT RATHER A MORE FLEXIBLE PROCESS OF SETTING TARGET RATES BY WHICH EUROPEANS WOULD SEEK TO MAINTAIN AN APPROXIMATE RELATIONSHIP BETWEEN THE SNAKE AND THE DOLLAR.

5. ALL THREE FRENCH PROPOSALS WILL BE DEALT WITH BY THE CENTRAL LIMITED OFFICIAL USE

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BANK GOVERNORS OF THE SNAKE COUNTRIES, THE EC CENTRAL BANK GOVERNORS' COMMITTEE, AND BY A COMMITTEE OF EXPERTS. THESE GROUPS ARE TO REPORT TO THE FINANCE MINISTERS WHEN THEY NEXT MEET IN LUXEMBOURG ON JUNE 16.

6. REACTIONS TO THE FRENCH PROPOSALS: PRELIMINARY REACTIONS TO THE FRENCH PROPOSALS HAVE BEEN MIXED. GERMAN FINANCE APEL SAID THAT THE GERMANS WERE NOT PREPARED TO SEE A CHANGE IN

THE "ESSENTIAL CHARACTER OF THE SNAKE." BELGIAN FINANCE MINISTER DECLERCQ, WHILE WELCOMING THE RETURN OF THE FRENCH FRANC WHICH HE SAID WAS ALREADY A DE FACTO MEMBER OF THE SNAKE, TERMED THE FRENCH PROPOSALS FARREACHING AND WORTHY OF FURTHER STUDY. DUTCH FINANCE MINISTER DUISENBERG SAID THAT THE FRENCH PROPOSALS WERE NOT TECHNICAL BUT RATHER HIGHLY POLITICAL IN NATURE AND THAT TAKEN TOGETHER THEY REPRESENTED A CONSIDERABLE CHANGE IN THE PRESENT OPERATING METHODS OF THE SNAKE. HE WAS ESPECIALLY CRITICAL OF THE FRENCH DESIRE TO INTRODUCE THE USE OF GOLD IN SHORT TERM CREDIT SETTLEMENTS

7. COMMENT: SEVERAL OF FOURCADE'S PROPOSALS ARE SIMILAR TO THOSE THAT HE MADE TO THE FINANCE COUNCIL LAST SEPTEMBER. (SEE EC BRUSSELS 7122 AND 7191, 1974). IT IS NOT CLEAR AT THE PRESENT TIME HOW MUCH IMPORTANCE THE GOF PLACES ON ADOPTION OF THESE PROPOSALS. SOME TECHNICAL ASPECTS SUCH AS EXTENDING THE DURATION OF SHORT-TERM CREDIT ARE PROBABLY ACCEPTABLE TO THE SNAKE MEMBERS AT LEAST ON AN INFORMAL BASIS. IF THE FRENCH INSIST ON BASIC STRUCTURAL CHANGES, SUCH AS LINKING THE SNAKE TO THE DOLLAR RATE AND MODIFYING INTERVENTION PROCEDURES, IT MAY BE SOME TIME BEFORE AGREEMENT IS OBTAINED ON THESE "SUGGESTIONS". END COMMENT.GREENWALD

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